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# R. J. Reynolds Tobacco Company

Winston-Salem, N. C.



# ANNUAL REPORT

## *1949*

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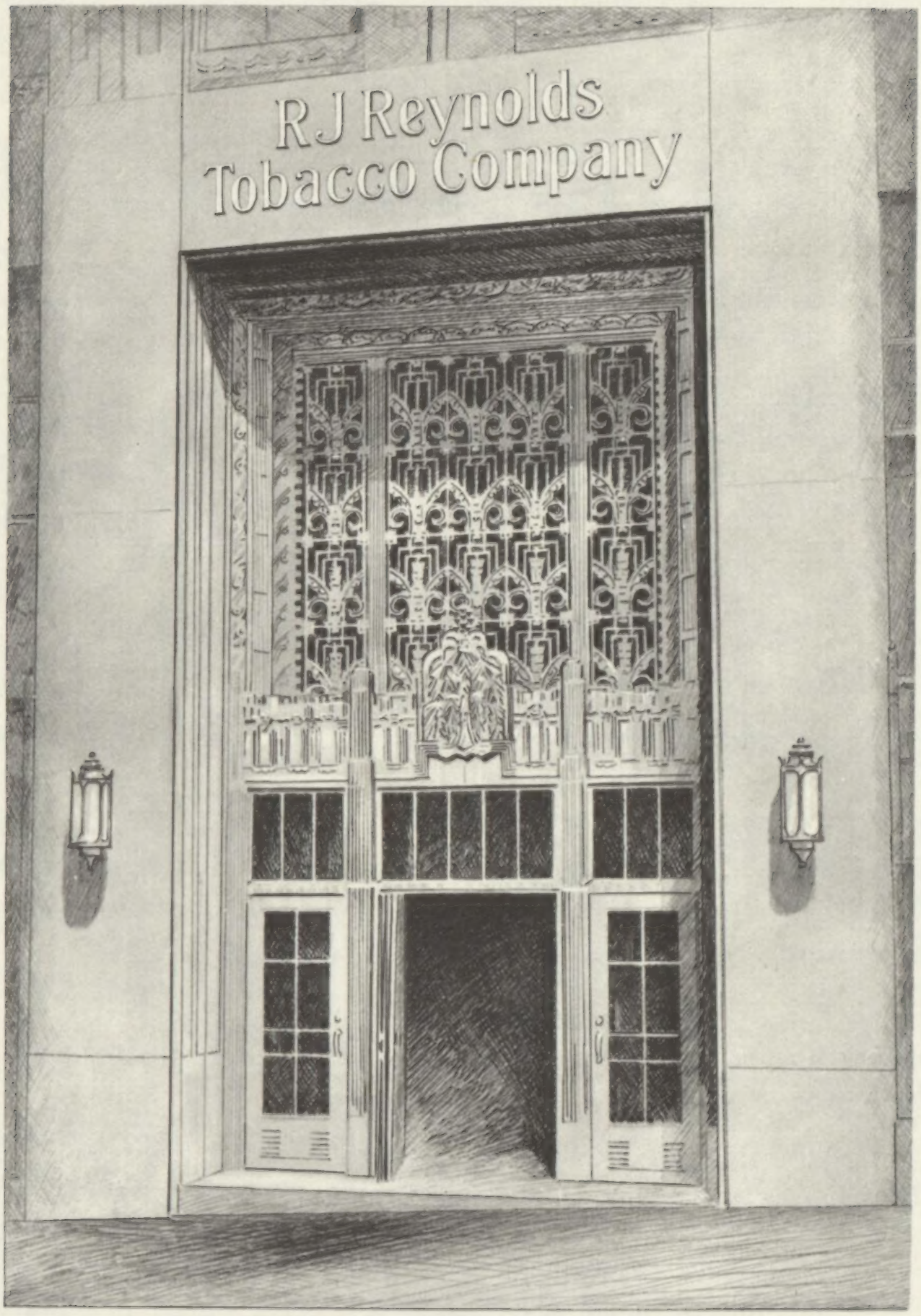

R J Reynolds
Tobacco Company

# Comparative Summary of Financial Data

## Sales, Earnings and Dividends

| | 1949 | 1948 |
|---|---|---|
| Net Sales | $746,345,301 | $724,921,310* |
| Net Earnings | 40,454,161 | 34,617,203 |
| Earnings as a percentage of Net Sales | 5.42% | 4.77% |
| Earnings per share on 750,000 shares of Preferred Stock | $ 53.94 | $ 46.15 |
| Dividends on Preferred Stock | 2,934,000 | 1,994,608 |
| Earnings per share on 10,000,000 shares of common stocks after Preferred Stock dividends paid | 3.75 | 3.26 |
| Dividends per share on common stocks | 2.00 | 2.00 |
| Dividends on common stocks (exclusive of payments on shares held in Retirement and Insurance Investment Fund discontinued on June 29, 1949) | 19,660,886 | 19,600,000 |

## Financial Position at Year-End

| | | |
|---|---|---|
| Total Assets | $528,529,031 | $530,698,144 |
| Current Assets | 493,678,789 | 497,691,441 |
| Current Liabilities | 95,472,284 | 110,462,693 |
| Net Current Assets—Working Capital | 398,206,505 | 387,228,748 |
| Real Estate, Machinery and Equipment—net | 31,153,255 | 29,627,921 |
| Funded Debt | 145,000,000 | 150,000,000 |
| Capital Stock | 175,000,000 | 175,000,000 |
| Earnings Retained for requirements of the business | 113,056,747 | 94,186,822 |

* Adjusted to include certain freight and cartage expenses which prior to 1949 were deducted from sales and since January 1, 1949 have been included in cost of goods sold.

# R. J. REYNOLDS TOBACCO COMPANY
## Winston-Salem, North Carolina

TO THE STOCKHOLDERS:

Net sales for 1949 were $746,345,301 and net earnings were $40,454,161, or 5.42% of the sales, both sales and earnings setting new records for the Company. The comparable figures for 1948 are shown in the summary of financial data set forth on the opposite page of this report.

After deduction of dividends paid on the Preferred Stock, the net earnings for 1949 amounted to $3.75 for each of the 10,000,000 issued shares of common stocks of the Company as against $3.26 a share for 1948.

Sales for 1949 of CAMEL and CAVALIER Cigarettes for use in the United States were in excess of sales for 1948 of cigarettes for such use, while cigarette sales for export to foreign countries were less than for the preceding year. Smoking tobacco sales, including PRINCE ALBERT, were greater than for 1948. Chewing tobacco sales, in line with the trend in the industry, were less than for that year.

**Dividends** Dividends paid on the common stocks in 1949 totaled $2.00 a share and consisted of four quarterly dividends of 45¢ each and a year-end dividend of 20¢, the same as in 1948. On January 12, 1950, the Directors declared a quarterly dividend of 50¢ a share, payable February 15, 1950, on the common stocks. In increasing the amount of the quarterly dividend, the Directors were motivated by the consideration that the Company's stockholders quite generally prefer to receive their full-year dividends on a quarterly basis and therefore it is the intention of the Directors to discontinue the practice of paying year-end dividends.

**CAVALIER Cigarettes** For many years the activities of the Company in the cigarette field were confined to CAMEL Cigarettes. In view, however, of the expanding demand for the long or king-sized cigarettes, the Company in March, 1949 introduced CAVALIER Cigarettes. The brand was initially marketed in certain selected cities and after being well received was gradually made available throughout the country. The reception has been most gratifying and it is hoped that the Company will be able to obtain an increasingly larger volume for the brand.

**Leaf Tobacco** The cost of leaf tobacco for cigarettes as charged into manufacturing operations was higher in 1949 than in 1948. On the basis of purchases during 1949 of cigarette tobaccos, the indications are that the cost of leaf tobacco to be charged into manufacturing operations will be somewhat higher in 1950 than it was in 1949.

**Current Assets and Liabilities** At the end of 1949 the Company's total current assets amounted to $493,678,789 as against total current liabilities of $95,472,284, or a ratio of $5.17 of current assets for each $1.00 of current liabilities. The inventories included in current assets were $454,015,671 as against $459,696,280 in 1948. By far the largest item in current assets is leaf tobacco, which is carried as heretofore on the basis of average cost, which is the method generally used in the industry. Under this method the average cost for each grade of tobacco is obtained by averaging each purchase, grade by grade, with like tobacco on hand.

As has been the case since 1942, a large part of the Company's purchases of leaf tobacco was financed by short-term borrowings from banks. Under the Company's present stand-by credit agreement with fourteen depositary banks, which agreement runs through June, 1951, the Company may borrow up to $90,000,000 at any one time. Loans outstanding under the credit are generally at their maximum at the end of the burley tobacco marketing season in February and at their minimum around the time of the opening of the flue-cured tobacco marketing season in July. At the end of 1949 the loans outstanding under the credit amounted to $55,000,000. For a period during the summer the Company, for the first time since this method of financing purchases of leaf tobacco was commenced, had no short-term debt.

**Employees** The Company at the year-end had 12,282 regular employees and 4,448 seasonal employees on its payroll. Of the regular employees 53% have been in the continuous employ of the Company for ten or more years. The long service record that so many employees have and the low rate of turnover of regular employees are regarded by the management as indicative of the satisfactory results that have been brought about through the Company's policy to always treat its employees fairly and to provide for them excellent working facilities and sound benefit programs. The benefit plans include the Group Life, Health and Accident Insurance Plan, Employees' Retirement Plan, Hospital and Surgical Service Plan and paid vacations and holidays. Much of the progress of the Company is attributable to the loyalty, cooperation and effective working of the employees.

The vital function that capital has in making available jobs for workers is well illustrated with respect to this Company by the large amount of investment required behind each employee's job. Considering only inventories and physical plant, at the end of 1949 the Company had an average investment of over $30,000 behind each job it furnished employees, both regular and seasonal.

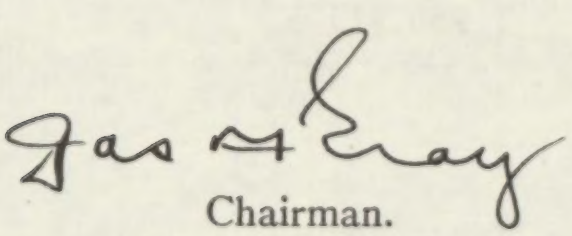
**Stockholders** Stockholders of record of the Company at the year-end totaled 72,564 without allowing for duplications occasioned by one stockholder owning more than one class of stock. Of this number, 60,266 held common stocks and 12,298 held Preferred Stock. There were thus, 433 stockholders for every 100 employees, both regular and seasonal.

**Amendment of Charter and By-Laws**

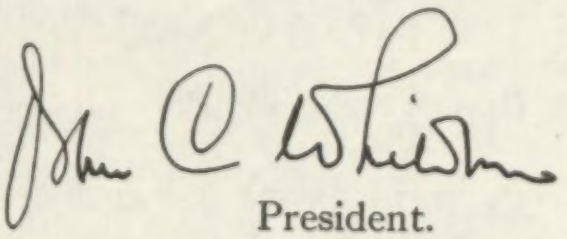
At the stockholders' meeting held on June 29, 1949 action was taken to amend the Certificate of Incorporation and Article XII of the By-Laws, as well as to discontinue the Retirement and Insurance Investment Fund and related reserves, all in accordance with the Plan as to which the holders of both Common Stock and New Class B Common Stock were advised under date of May 24, 1949. Under the amendment to the Certificate of Incorporation, the holders of New Class B Common Stock were granted the same voting rights and privileges as the holders of Common Stock, namely, one vote per share. The holders of Common Stock were accorded the option to exchange such stock on or before March 31, 1959 for New Class B Common Stock on the basis of one share of Common Stock for one and one-fourth shares of New Class B Common Stock. The 200,000 shares of Common Stock owned by the Company were reclassified into 200,000 shares of New Class B Common Stock. Article XII of the By-Laws was amended so as to reduce gradually and to eliminate eventually the participation payments made to qualified officers and employees with respect to shares of Common Stock held by them. The amendment provides that the last year for which such participation payments may be made is 1958. As stated in the communications referred to, the Plan makes possible, in an equitable manner and with due recognition being given to invested values of the holders of Common Stock, the achievement of the ultimate goal of having only one class of common stock in which all holders have the same rights. By the end of the year, 228,300 shares of Common Stock had been exchanged for New Class B Common Stock pursuant to the exchange option contained in the amendment to the Certificate of Incorporation.

With profound sorrow the death of Mr. S. Clay Williams on February 25, 1949 is recorded. Mr. Williams' association with the Company extended for a period of thirty-one years. At the time of his death he was Chairman of the Board of Directors, which position he held for thirteen years.

By order of the Board of Directors,



Chairman.



President.

January 24, 1950.

# R. J. REYNOLDS TO

## Financial Position at

### ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 16,533,359.00 | |
| Accounts receivable (net) for merchandise sold | 23,129,759.15 | |
| Leaf tobacco, supplies, manufactured product, etc.—at average cost | 454,015,671.46 | |
| TOTAL CURRENT ASSETS | | $493,678,789.61 |
| REAL ESTATE, MACHINERY AND EQUIPMENT—at cost | 50,289,064.52 | |
| Less depreciation, obsolescence, etc. | 19,135,809.30 | |
| NET REAL ESTATE, MACHINERY AND EQUIPMENT | | 31,153,255.22 |
| OTHER ASSETS: | | |
| Investments in non-competitive companies | 25,000.00 | |
| Sundry receivables and deposits | 1,936,713.32 | |
| Brands, trade-marks and good will | 1.00 | |
| Prepaid expenses and deferred charges | 1,735,272.14 | |
| TOTAL OTHER ASSETS | | 3,696,986.46 |
| | | $528,529,031.29 |

)BACCO COMPANY
December 31, 1949

## LIABILITIES

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 5,408,467.57 | |
| Notes payable | 55,000,000.00 | |
| Funded debt due within one year | 5,000,000.00 | |
| Accrued Federal and State taxes | 28,971,041.29 | |
| Sundry accrued accounts | 1,092,775.15 | |
| TOTAL CURRENT LIABILITIES | | $ 95,472,284.01 |
| FUNDED DEBT (Footnote A): | | |
| 2½% Promissory Notes (due 1951-1972) | 86,000,000.00 | |
| 3% Debentures, due October 1, 1973 | 59,000,000.00 | |
| TOTAL FUNDED DEBT | | 145,000,000.00 |
| CAPITAL AND EARNINGS RETAINED: | | |
| Preferred Stock—Par $100: | | |
| Authorized and issued 750,000 shares | | |
| 3.60% Series | 49,000,000.00 | |
| 4.50% Series | 26,000,000.00 | |
| Common Stock—Par $10: | | |
| Authorized and issued 571,700 shares | 5,717,000.00 | |
| New Class B Common Stock—Par $10 (Footnote B): | | |
| Authorized 15,000,000 shares | | |
| Issued 9,428,300 shares | 94,283,000.00 | |
| | 175,000,000.00 | |
| Earnings Retained for requirements of the business (Footnote A) | 113,056,747.28 | |
| TOTAL CAPITAL AND EARNINGS RETAINED | | 288,056,747.28 |
| | | $528,529,031.29 |

# Statement of Earnings

## Year Ended December 31, 1949

| | | |
|---|---|---|
| NET SALES | | $746,345,300.94 |
| OTHER INCOME: | | |
| Dividends, interest and sundry | | 1,250.66 |
| TOTAL INCOME | | 746,346,551.60 |
| LESS: | | |
| Cost of goods sold and other charges including selling and general expenses, but exclusive of items below | $667,829,459.57 | |
| Provision for depreciation and obsolescence | 1,910,646.30 | |
| Interest charges | 4,856,395.82 | |
| Debenture expense amortization | 40,516.48 | |
| Provision for participation in profits under Article XII of By-Laws payable to 1,906 officers and employees | 2,784,206.70 | |
| Provision for Federal and State taxes on income | 28,471,165.31 | |
| TOTAL INCOME DEDUCTIONS | | 705,892,390.18 |
| NET EARNINGS FOR YEAR | | $ 40,454,161.42 |
| Dividends paid on Preferred Stock | | $ 2,934,000.00 |
| NET EARNINGS APPLICABLE TO COMMON STOCKS | | 37,520,161.42 |

# Statement of Earnings Retained

## Year Ended December 31, 1949

| | | |
|---|---|---|
| EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at beginning of year | | $ 94,186,822.83 |
| ADD: | | |
| Net Earnings for year | | 40,454,161.42 |
| Reserves no longer required | | 1,010,649.53 |
| | | 135,651,633.78 |
| DEDUCT: | | |
| Cash dividends on— | | |
| Preferred Stock | | |
| 3.60% Series | $ 1,764,000.00 | |
| 4.50% Series | 1,170,000.00 | |
| Common stocks at $2.00 per share, consisting of four quarterly interim dividends of 45c each and a year-end dividend of 20c | 19,660,886.50 | 22,594,886.50 |
| EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at end of year (Footnote A) | | $113,056,747.28 |

Footnote A: The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1950-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

So long as either of its 2½% Promissory Notes or any of its 3% Debentures remain outstanding the Company is obligated not to declare dividends (other than stock dividends) and not to make payment on account of purchase, redemption or retirement of any shares of its stock to an extent where such dividend or payment plus the aggregate of all such prior dividends and payments made from January 1, 1946, shall exceed an amount equal to the Net Income of the Company from January 1, 1946, to and including the date of such declaration or payment plus $15,000,000, but such limitation does not restrict declaration or payment of dividends on Preferred Stock. At December 31, 1949, the part of Earnings Retained not affected by this restriction was $65,049,478.49.

Footnote B: Of the authorized but unissued shares of New Class B Common Stock, 571,700 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,428,300 shares of issued New Class B Common Stock, 142,925 shares are held by the Company in its treasury and are reserved for exchange pursuant to said Exchange Option to Holders of Common Stock.

# Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1949, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

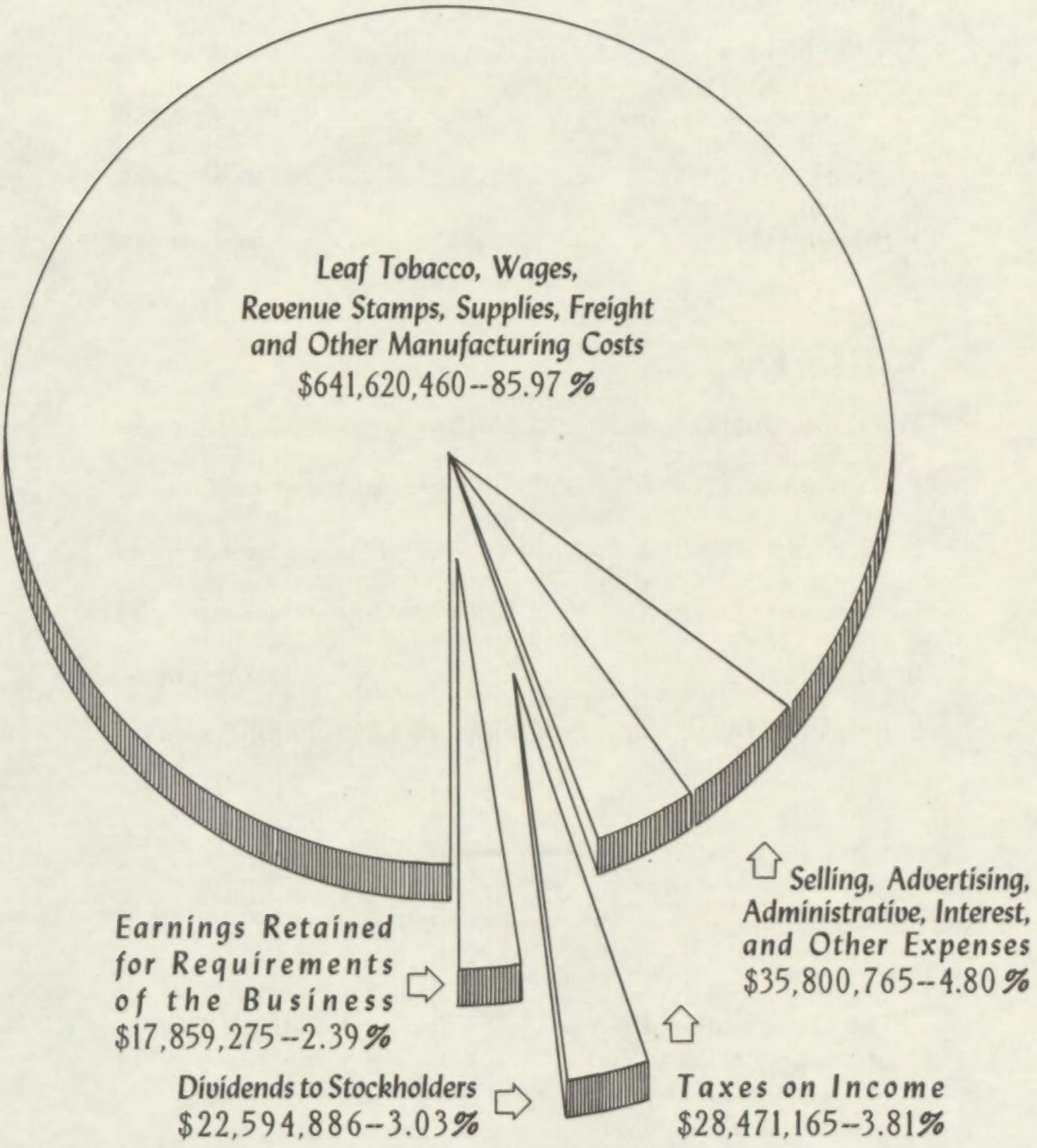
In our opinion, the accompanying statement of financial position and related statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1949, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants.

January 23, 1950.

# Disposition of the Company's Total Income in 1949



# Board of Directors

JAS. A. GRAY.....*Chairman Board of Directors*

JOHN C. WHITAKER.....*President*

R. C. HABERKERN.....*Vice-President*

P. FRANK HANES.....*Vice-President*

E. A. DARR.....*Vice-President*

H. N. HARDY.....*Vice-President*

BOWMAN GRAY.....*Vice-President*

F. S. HILL.....*Treasurer*

W. J. CONRAD.....*Secretary*

W. T. SMITHER.....*Manager Advertising Department*

R. G. VALLANDINGHAM.....*Superintendent of Leaf Buying*

H. H. RAMM.....*Solicitor and Assistant to Chairman of Board*

H. S. KIRK.....*Superintendent of Manufacturing*

S. M. SCOTT.....*Comptroller*

S. B. HANES, JR.....*Superintendent of Leaf Processing*

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TRANSFER AGENTS

The Chase National Bank
of the City of New York,
*11 Broad Street,*
*New York, N. Y.*

The First National Bank
of Jersey City,
*1 Exchange Place,*
*Jersey City, N. J.*

REGISTRAR

Central Hanover Bank and Trust Company,
*70 Broadway, New York, N. Y.*

# *Principal Brands of the Company*

*Cigarettes*

CAMEL CIGARETTES

CAVALIER CIGARETTES

*Smoking Tobaccos*

PRINCE ALBERT

GEORGE WASHINGTON • OUR ADVERTISER

STUD • TOP

*Chewing Tobaccos*

BROWN'S MULE • DAYS WORK

APPLE SUN CURED

REYNOLDS' NATURAL LEAF

REYNOLDS' SUN CURED

CUP • SCHNAPPS • HONEY CUT

STRATER'S NAT. LEAF TWIST

WINESAP • MICKY TWIST

CASH VALUE • TOP